



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Sean Dilweg, Commissioner

Wisconsin.gov

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Notice of Adoption and Filing of Examination Report

Take notice that the proposed report of the market conduct examination of the

WILSON MUTUAL INSURANCE COMPANY
3330 STAHL RD
SHEBOYGAN WI 53081

dated FEBRUARY 13, 2009, and served upon the company on JUNE 2, 2010, has been adopted as the final report, and has been placed on file as an official public record of this Office.

Dated at Madison, Wisconsin, this 9TH day of SEPTEMBER, 2010.

A handwritten signature in black ink, appearing to read "Sean Dilweg".

Sean Dilweg
Commissioner of Insurance

**STATE OF WISCONSIN
OFFICE OF THE COMMISSIONER OF INSURANCE**

MARKET CONDUCT EXAMINATION

OF

**WILSON MUTUAL INSURANCE COMPANY
SHEBOYGAN, WISCONSIN**

FEBRUARY 2, 2009 THROUGH FEBRUARY 13, 2009

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February 13, 2009

Honorable Sean Dilweg
Commissioner of Insurance
Madison, WI 53702

Commissioner:

Pursuant to your instructions and authorization, a targeted market conduct examination was conducted February 2, 2009 to February 13, 2009 of:

WILSON MUTUAL INSURANCE COMPANY
Sheboygan, Wisconsin

and the following report of the examination is respectfully submitted.

I. INTRODUCTION

Wilson Mutual Insurance Company is a property and casualty insurer licensed to transact business in Minnesota, Ohio, and Wisconsin. Its entire direct premium is written in Wisconsin. The company was licensed in Wisconsin and commenced doing business in 1872 as a town mutual insurer, known as Town of Wilson Mutual Fire Insurance Company. On January 1, 1986, the company was converted to a domestic mutual insurance company, and became a nonassessable mutual insurance company on April 2, 1991.

The company absorbed all of the assets and assumed all of the liabilities of Plymouth Mutual Insurance Company on December 31, 1991; Ashford Mutual Insurance Company on October 1, 1996; Dunn County Mutual Insurance Company on January 1, 1997; Dodgeville Mutual Insurance Company on July 1, 1998, and Moraine Mutual Insurance Company on August 1, 2006.

In November of 2001, Wilson policyholders approved an affiliation with The Motorists Insurance Group of Columbus, Ohio. Wilson operates as a member of the Motorists Group. The major products marketed by the company include farmowners, homeowners, commercial multiple-peril, and private passenger auto.

The following table summarizes the total direct national premium written as compared it to the total direct premium written in Wisconsin.

Year	National Direct Premium Written	Wisconsin Direct Premium Written	WI As a Percentage of the National Premium
2007	\$71,602,716	\$71,602,716	100%
2006	\$66,094,916	\$66,094,916	100%

The majority of the premium earned by the company in 2007 and 2006 was Private Passenger Auto.

The following tables summarize the premium earned and incurred losses in Wisconsin for 2007 and 2006 broken down by line of business.

Line of Business	2007	
	Premium Earned	Losses Incurred
Fire & Allied Lines	\$ 2,055,176	\$ 1,400,143
Homeowners	\$ 14,306,529	\$ 9,721,616
Farmowners	\$ 6,711,226	\$ 2,064,784
Commercial Multiple Peril	\$ 12,970,536	\$ 6,867,697
Worker's Compensation	\$ 6,544,600	\$ 3,031,026
Private Passenger Auto	\$ 18,608,570	\$ 12,626,579
Commercial Auto	\$ 1,899,145	\$ 1,095,162
All Others	\$ 7,182,754	\$ 1,912,777
Total	\$ 70,278,536	\$ 38,719,784

Line of Business	2006	
	Premium Earned	Losses Incurred
Fire & Allied Lines	\$ 1,524,090	\$ 1,262,866
Homeowners	\$ 14,480,662	\$ 11,069,183
Farmowners	\$ 6,937,444	\$ 4,538,082
Commercial Multiple Peril	\$ 12,417,980	\$ 7,511,226
Worker's Compensation	\$ 5,371,945	\$ 2,883,378
Private Passenger Auto	\$ 17,704,587	\$ 9,771,629
Commercial Auto	\$ 1,645,255	\$ 785,643
All Others	\$ 5,747,762	\$ 1,094,269
Total	\$65,829,725	\$ 38,916,275

The company maintains a presence on the Internet at www.wilsonmutual.com. The web site contains information about the company, its history, the products and services offered, and when a zip code is entered, a list of agents in the zip code area.

No coverage is provided via this web site. This web site only illustrates coverages offered under the Wilson Mutual Auto Program. It is not a statement of all policy coverages, provisions, conditions, or changes, and it indicates that certain deductibles, provisions and limits may apply. The consumer is invited to contact a Wilson Mutual agent for a complete listing of policy coverages and provisions. Consumers are also advised that if there is any conflict between this web site and the policy, the policy provisions shall prevail. The web site also allows agents to log on to a private web page via a password.

The Office of the Commissioner of Insurance received 25 complaints against the company between January 1, 2007 through June 30, 2008. The majority of these complaints involved claims handling and claim settlement values. A complaint is defined as 'a written communication received by the Commissioner's Office that indicates dissatisfaction with an insurance company or agent.'

The following tables categorizes the complaints received against the company by type of policy and complaint reason. There may be more than one type of coverage and/or reason for each complaint.

2008		Reason				
Coverage Type	Total.	Under-writing.	Marketing & Sales	Claims	Policyholder Service	Other
Personal Auto	2	0	1	1	0	0
Commercial Vehicle	0	0	0	0	0	0
Com Prop & Liability	3	0	1	2	0	0
Homeowners	4	0	2	2	0	0
Farmowners	2	0	0	2	0	0
Commercial Liability	1	0	0	1	0	0
Worker's Comp	0	0	0	0	0	0
Fidelity & Surety	0	0	0	0	0	0
All Others	0	0	0	0	0	0
Total	12	0	4	8	0	0

2007		Reason				
Coverage Type	Total.	Under-writing.	Marketing & Sales	Claims	Policyholder Service	Other
Personal Auto	2	0	2	0	0	0
Commercial Vehicle	1	0	0	1	0	0
Com Prop & Liability	5	0	0	5	0	0
Homeowners	4	1	2	1	1	0
Farmowners	0	0	0	0	0	0
Commercial Liability	0	0	0	0	0	0
Worker's Comp	0	0	0	0	0	0
Fidelity & Surety	0	0	0	0	0	0
All Others	1	0	0	0	1	0
Total	13	1	4	7	2	0

2006		Reason				
Coverage Type	Total.	Under-writing.	Marketing & Sales	Claims	Policyholder Service	Other
Personal Auto	10	1	0	8	1	0
Commercial Vehicle	0	0	0	0	0	0
Com Prop & Liability	0	0	0	0	0	0
Homeowners	2	1	0	2	0	0
Farmowners	1	0	0	1	0	0
Commercial Liability	0	0	0	0	0	0
Worker's Comp	1	1	0	0	0	0
Fidelity & Surety	0	0	0	0	0	0
All Others	1	0	1	0	0	0
Total	15	3	1	11	1	0

II. PURPOSE AND SCOPE

A targeted examination was conducted to determine compliance with recommendations made in the previous market conduct examination adopted April 20, 1999, and determine whether the company's practices and procedures comply with the Wisconsin insurance statutes and rules. The examination focused on the period from January 1, 2007 through June 30, 2008. In addition, the examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination. The examination covered a review of homeowners, farmowners, and personal passenger automobile business in Wisconsin and was limited to a review of claims, policy forms and rates, producer licensing, underwriting and rating, and company operations and management, including privacy.

The report is prepared on an exception basis and comments on those areas of the company's operations where adverse findings were noted.

III. PRIOR EXAMINATION RECOMMENDATIONS

The prior market conduct examination, adopted April 20, 1999, reviewed the company's practices and procedures to determine compliance with Wisconsin insurance statutes and laws. Areas reviewed were private passenger auto and homeowner claims and underwriting procedures, as well as rates and forms; commercial line forms; marketing and sales; and policy holder services. The recommendations contained in the previous examination report related to the market conduct portion of the examination and the company's resulting actions follow.

Prior Exam Recommendations

FORMS

1. It is recommended that the company revise its commercial umbrella policy, 64-N650 (2/93), to provide limited coverage for motor vehicle handlers if the policy is issued to other than a motor vehicle handler and provide limited coverage to anyone other than the motor vehicle handler if the policy is issued to a motor vehicle handler to comply with s. 632.32 (5) (b) and (c), Wis. Stat.

ACTION: Compliance

2. It is recommended that the company revise its commercial umbrella endorsement, 64-N706 (2/96) WI, to provide coverage for persons related by blood or marriage to the insured to comply with s. 632.32 (6) (b) 1, Wis. Stat.

ACTION: Compliance

3. It is recommended that the company revise its endorsement, 64-N706 (2/96) WI, to refer to paragraph 16 rather than 14 in order to amend the proper paragraph in the policy.

ACTION: Compliance

4. It is recommended that the company revise its commercial umbrella application, CXL APPL (8/93), to delete the question asking if any named drivers are specifically excluded to comply with s. 632.32 (3) (a), Wis. Stat.

ACTION: Compliance

5. It is recommended that the company revise its personal passenger automobile endorsement, PP 03 06 06 94, to provide coverage for family members of named nonowner insureds to comply with the Wisconsin Supreme Court decision, Bindrim v. Colonial Insurance Company, 190 Wis. 2d 525.

ACTION: Compliance

6. It is recommended that the company revise its personal umbrella excess liability policy, PXL-1 (Ed. 8-88), to provide limited coverage for motor vehicle handlers to comply with s. 632.32 (5) (b), Wis. Stat.

ACTION: Compliance

7. It is recommended that the company revise its policy forms listed in this report to provide the specified coverages for insured buildings that are vacant or unoccupied buildings for up to 60 consecutive days prior to a loss to comply with s. Ins 6.76 (3) (e) 2, Wis. Adm. Code.

ACTION: Compliance

8. It is recommended that the company revise the special property computer form, SP-5 (Ed. 5-84) TMS, to comply with current Wisconsin insurance laws and rules as listed in this report.

ACTION: Compliance

9. It is recommended that the company revise its special coverage endorsement -- builders' risk, CF 10 04 (Ed. 10-83), to provide payment under s. Ins 4.01 (2) (h), Wis. Adm. Code, when applicable property is partially destroyed but ordered destroyed by a fire ordinance or similar law.

ACTION: Compliance

10. It is recommended that the company revise the Wisconsin amendatory endorsement, FL-310-C (Ed. 4-88) TMS, to refer to the proper conditions in the policy that it is amending.

ACTION: Compliance

11. It is recommended that the company revise its Coverage E - Scheduled Farm Personal Property form, ML-6E (Ed. 4-90) TMS, to apply the deductible to the adjusted loss and then pay the lesser of the adjusted loss or the limit of liability, whichever is less, in order to comply with s. 631.20 (2) (a), Wis. Stat.

ACTION: Compliance

CLAIMS

12. It is recommended that the company ensure comparative negligence of its insureds be taken into account and reduce its subrogation claims against uninsured motorists by that percentage in order to comply with s. 895.045, Wis. Stat.

ACTION: Compliance

13. It is recommended that the company submit a plan to promptly reimburse its insureds' deductibles when collecting installment payments from negligent parties in order to make its insureds whole and to comply with the Wisconsin Supreme Court decision, Rimes v. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263.

ACTION: Compliance

UNDERWRITING

Manuals and Guidelines

14. It is recommended that the company revise its automobile general underwriting rule, Unacceptable Vehicles, to reflect the company's actual procedure.

ACTION: Compliance

15. It is recommended that the company revise its application requirements for its farm truck, personal umbrella excess liability, and farm umbrella excess liability programs to reflect the company's actual practice and its compliance with s. 631.05, Wis. Stat.

ACTION: Compliance

16. It is recommended that the company delete the automobile general underwriting rule, Unacceptable Drivers & Household Members," which includes any operator who has an uncorrected physical disability that may affect driving, to comply with s. Ins 6.54 (3) (a) 2, Wis. Adm. Code, and ss. 106.04 (9) (a) 4 and 625.12 (2), Wis. Stat.

ACTION: Compliance

17. It is recommended that the company amend its underwriting guidelines and rules regarding risks which have previously been terminated by Wilson Mutual or another insurer, to reflect its actual procedures and to comply with s. Ins 6.68 (3) (c), Wis. Adm. Code.

ACTION: Compliance

18. It is recommended that the company not cancel policies midterm unless the reason for the cancellation falls within one of the acceptable grounds set forth in s. 631.36 (2) (a), Wis. Stat.

ACTION: Compliance

File Review

19. It is recommended that the company state with reasonable precision on its nonrenewal notices the reason for nonrenewing the policy to comply with s. 631.36 (6), Wis. Stat.

ACTION: Compliance

20. It is recommended that the company follow its guidelines regarding signed applications.

ACTION: Compliance

21. It is recommended that the underwriting rule be revised to reflect the company's actual procedure and the company follow its procedures consistently.

ACTION: Compliance

22. It is recommended that the company follow its underwriting rules when underwriting and rating its risks in order to avoid unfair discrimination as set forth in s. 628.34 (3) (a), Wis. Stat.

ACTION: Compliance

23. It is recommended that the company simplify its rating instructions, schedules, and rules and/or provide adequate training for its agents in order to ensure correct quotes are being provided to applicants to comply with s. 628.34 (1) (a), Wis. Stat.

ACTION: Compliance

24. It is recommended that the company revise its procedures to calculate premium refunds, requested by insured whose premiums were misquoted resulting in an increased premium, pro rata based on the quoted premium.

ACTION: Compliance

IV. CURRENT EXAMINATION FINDINGS

Claims

The examiners reviewed 255 closed homeowners and private passenger automobile claims. Of these claims 51 were paid homeowners claims, 51 were paid private passenger automobile claims, 51 were homeowners claims closed without payment, 51 were private passenger automobile claims closed without payment, and 51 files were for subrogation. The company's claims handling practices and procedures were also reviewed. The following exceptions were noted:

The examiners found that the company does not have written procedures in place detailing the process to be followed when settling claims involving depreciation/betterment; sales tax for either total losses or repairs; deductibles with respect to policy limit, claimant loss amount and internal limits; and reimbursement of insureds from subrogation recoveries. An internal claim audit conducted by the company found inconsistent treatment of sales tax on vehicle total losses, even after the company implemented a standard position. Section. Ins 6.11 (3) (b) 2, Wis. Admin. Code, states that unfair claim settlement practices include knowingly misrepresenting to claimants pertinent facts or policy provision relating to coverages involved; failure to make provision for adequate claims handling personnel, systems and procedures to effectively service claims in this state incurred under insurance coverage issued or delivered in this state; and failure to adopt reasonable standards for investigation of claims arising under its insurance policies.

1. Recommendation: It is recommended that the company develop and implement written claim procedures detailing the process to be followed when settling claims involving depreciation/betterment; sales tax for total losses and repairs; deductibles with respect to policy limit, claimant loss amount and internal limits; and reimbursement of insureds from subrogation recoveries in order to ensure fair and consistent claim handling and compliance with s. Ins 6.11 (3) (b) 2, Wis. Adm. Code.

The examiners found that the company does not have written procedures specifically dealing with payment of interest on claims that are not paid promptly. Section 628.46, Wis. Stat., states that a claim shall be overdue if not paid within 30 days after the insurer is furnished written notice of the fact of a covered loss and of the amount of the loss. All overdue payments shall bear simple interest at the rate of 12% per year. While the examiners did not find any instances where a claim appeared to be overdue, the lack of a written procedure to identify late claims and interest payment could result in a violation of s. 628.46, Wis. Stat., especially as the company expands in to new states with varying insurance laws.

2. Recommendation: It is recommended that the company develop and implement a written procedure to ensure interest is paid on all overdue claims, in order to ensure compliance with s. 628.46, Wis. Stat.

Four files reviewed did not contain documentation to support claim paid dates. The company stated payment authorization was based on the adjuster's claim settlement agreement with the insured. However, the examiner was not able to locate any audit trail to corroborate any claim settlement agreement or date of payment. Section Ins 6.11 (3) (a) 1, Wis. Admin. Code, provides that it is an unfair claim settlement practice to fail to acknowledge pertinent communications with respect to claims arising under insurance policies. Without complete and proper documentation to show contacts with claimants, it is difficult to determine whether the company is promptly acknowledging pertinent communications.

3. Recommendation: It is recommended the company document all communications with claimants in order to document its compliance with s. Ins 6.11 (3) (a) 1, Wis. Adm. Code.

The examiners found 12 files lacking proof that claim denial letters were sent to the claimants. For three files that did not contain any evidence of claim denial letters being sent,

the company indicated the files were closed without denial letters because of oral discussions with the insureds or their attorneys. In another nine files, the company indicated that denial letters were not sent because the adjuster had come to a verbal agreement with the insured that the loss was not a covered peril, or that the loss was less than the deductible. Section Ins 6.11 (3) (a) (7), Wis. Admin. Code, considers failure to affirm or deny coverage of claims within a reasonable time after proof of loss has been completed an unfair claim settlement practice. Without complete and proper documentation to indicate conversations with claimants or their attorneys, it is difficult to determine whether the company is promptly denying claims within a reasonable time.

4. Recommendation: It is recommended that the company promptly send a denial letter after the claim is verbally denied, in order to comply with s. Ins 6.11 (3) (a) (7), Wis. Admin. Code.

The examiners found one subrogation file where the company did not promptly reimburse its insured's deductible. Section 628.46, Wis. Stat., states, in part, that a claim is overdue if not paid within 30 days after the insurer is furnished written notice of the fact of a covered loss and the amount of the loss. When this file was brought to the attention of the company during the on-site examination, interest was paid to the insured.

The examiners found one subrogation file where the company reduced the deductible by 2% when reimbursing its insured because it had only recovered 98% of its claim payment. However, the file indicated that there was no issue of liability, i.e., the adverse driver was 100% negligent. The Wisconsin Supreme Court decision, Rimes v. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263, provides that the insured must be made whole before the insurer retains any recovery, but the recovery may be reduced by the insured's percentage of negligence. Reducing the amount of the deductible reimbursement when the insured is not negligent does not comply with the Rimes decision. When the file was brought to the company's attention during the on-site

examination, it reimbursed the additional 2% of the deductible, plus interest in accordance with s. 628.46, Wis. Stat, which states that all overdue payments shall bear simple interest at the rate of 12% per year.

5 Recommendation: It is recommended that the company reimburse its insureds for funds it receives in its subrogation efforts before retaining funds for its own account, in order to comply with the Wisconsin Supreme Court decision, Rimes v. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263, and if not paid promptly, include interest as required by s. 628.46, Wis. Stat.

Upon reviewing the files provided, the examiners found two files that did not contain supporting documentation to substantiate a claim payment. The company responded that for one file, documentation was misfiled when sent to the home office by the adjuster. In the other file, a separate file had been prepared by the adjuster, and payment was made based on the estimate in the adjuster's file. The contents of the adjuster's file did not get transferred to the home office. In a third file, the examiner found a claim was incorrectly paid. The company's response indicated the liability file would be voided and a property file established with all appropriate documentation transferred to the property file. Section Ins. 6.11 (3) (b) 2, Wis. Admin. Code, states failure to make provision for adequate claims handling personnel, systems and procedures to effectively service claims shall constitute unfair methods and practices in the business of insurance.

6. Recommendation: It is recommended the company review its procedures and address any procedural or personnel deficiencies in order to ensure proper documentation of claim settlements in order to avoid the unfair claim settlement practices described in with s. Ins. s 6.11 (3) (b) 2, Wis. Admin. Code.

Policy Forms and Rates

The company provides coverage to its policyholders using independently filed company policy forms and endorsements. The examiners randomly selected and reviewed 80 policy forms (30 private passenger automobile forms and 50 homeowners forms) currently used by the company in Wisconsin in order to verify that the provisions

of the policy forms comply with the Wisconsin insurance laws and regulations. The files were also examined to determine if the policies and forms currently used by the company have, in fact, been filed for use in Wisconsin. No exceptions were noted.

Producer Licensing

The company markets its insurance products using an independent agency system. To review the company's obligation to notify the Commissioner of producers that are appointed or terminated, the examiners requested that the company provide a list consisting of all producers appointed to represent the company as of the end of the examination period under review, June 30, 1998. The company's list was then compared to the Commissioner's database of producers appointed to represent the company as of that date. In addition, the examiners reviewed 101 producer files where the producer was appointed to represent the company and/or the relationship with the company was terminated during the examination period to determine if the company's practices and procedures related to the appointment and termination of its representatives comply with Wisconsin insurance statutes and rules. The following exceptions were noted.

After reviewing the producer termination files provided, the examiners found that it is the company's business practice to provide a blanket termination letter to the agency upon agency closure, but it does not send termination letters to each producer employed by the agency. The company sends an individual termination letter to a producer only when the agency has just one producer. In addition, the company termination letters do not specifically state that the agent is no longer to be appointed as a representative of the company and that he or she may not act as the company's representative. Section Ins 6.57 (2), Wis. Adm. Code, states, in part, that a notice of termination of appointment of individual intermediary in accordance with s. 628.11, Stats., shall be filed prior to or within 30 calendar days of the termination date with the

office of the commissioner of insurance. Prior to or within 15 days filing this termination notice, the insurer shall provide the agent written notice that the agent is no longer to be appointed as a representative of the company and that he or she may not act as its representative.

7. Recommendation: It is recommended the company send proper termination letters to all its terminated agents advising the agent they are no longer appointed and can no longer act as the company's representative in order to comply with s. Ins 6.57 (2), Wis. Adm. Code.

The examiners found that the company's procedures for terminating an agent did not include notice to OCI of the termination prior to or within 30 days of an agent's termination in the company's database. The company explained that the agent was allowed to remain appointed with OCI, allowing for the potential that the agent could then be employed with another Wilson agency. Also, when comparing the company's list of appointed agents from its database to the Commissioner's database of agents appointed to represent the company as of June 30, 2008, the examiners identified numerous agents from OCI's database that should have been included in the company's agents' data, which was provided in response to the data call. The examiners provided the company with a list of these agents and requested that the company confirm if they represented the company at the end of the examination period. If the agent was appointed as representing the company, then the company was to explain why the agents were not provided in the data call. The company indicated that 186 agents' appointments were not terminated with OCI. The terminations dated from 1997 to the time of the examination period. Section Ins 6.57 (2), Wis. Adm. Code, states, in part, that a notice of termination of appointment of individual intermediary in accordance with s. 628.11, Stats., shall be filed prior to or within 30 calendar days of the termination date with the office of the commissioner of insurance.

8. Recommendation: It is recommended the company send proper termination notice to the office of the commissioner of insurance prior to

or within 30 calendar days of the termination date in order to comply with s. Ins 6.57 (2), Wis. Adm. Code.

The company indicated that an additional 30 agents could not be located as being appointed with the company in its own database while OCI's database indicated the agents were appointed with the company. The company also found that the agent license numbers in the company's database for 31 agents did not match OCI's license numbers. Section Ins 6.57 (5), Wis. Admin. Code, states, in part, that no insurer shall accept business directly from any intermediary unless that intermediary is a licensed agent appointed with that insurer.

9. **Recommendation:** It is recommended that the company update and correct its producer database to include all of its appointed producers and his or her license numbers to comply with s. Ins 6.57 (5), Wis. Admin. Code.

Underwriting & Rating

The examiners reviewed 100 homeowners/farmowners and 50 private passenger auto new business files. Of the 100 homeowners and farmowners files, an additional 25 files were manually rated. Of the 50 private passenger auto files, 15 were manually rated. The examiners also reviewed 50 homeowners/farmowners and private passenger auto terminations.

One file was found where the agent submitted an application for Primary Home coverage with personal property coverage of \$76,300. The application was in error, and the policy was issued as a seasonal dwelling with \$54,500 personal property coverage. The insured was not provided notice of the changes. Section 628.34 (1), Wis. Stat., states, in part, that that no person may make or cause to be made any communication relating to an insurance contract, the insurance business, any insurer or any intermediary, which contains false or misleading information, including information misleading because of incompleteness..

10. **Recommendation:** It is recommended that whenever a policy is issued differently than applied for, the company provide separate

notification to the insured of the specific difference in coverage in order to comply with s. 628.34 (1), Wis. Stat.

At least 17 files were found in which the policy was issued at a different premium than the premium quoted by the agent and/or estimated on the application. The company indicated that the issued premium was the correct amount in all the files. However, the agents appear to be providing quotes or completing applications which do not contain the correct premium or estimated premium. Section 628.34 (1) (a), Wis. Stat., states, in part, that no insurer or their representative may make or cause to be made any communication relating to an insurance contract, which contains false or misleading information.

11. Recommendation: It is recommended that the company continue to simplify its rating instructions, schedules, and rules and provide ongoing training for its agents in order to ensure correct quotes are being provided to applicants to comply with s. 628.34 (1) (a), Wis. Stat.

The company does not currently address situations of domestic violence in its homeowners and farmowners underwriting guidelines. Section 631.95, Wis. Stat., states that an insurer may not, under property insurance coverage that excludes coverage for loss or damage to property resulting from intentional acts, deny payment to an insured for a claim based on property loss or damage resulting from an act, or pattern, of abuse or domestic abuse if that insured did not cooperate in or contribute to the creation of the loss or damage and if the person who committed the act or acts that caused the loss or damage is criminally prosecuted for the act or acts. Payment to the innocent insured may be limited in accordance with his or her ownership interest in the property or reduced by payments to a mortgagee or other holder of a secured interest. Without guidelines that address domestic violence, the company may be unfairly discriminating against insureds who are the victims of such violence. The company indicated it would hold an Underwriting Forum meeting to address the requirements of the law and to revise its underwriting guidelines.

12. **Recommendation:** It is recommended that the company add underwriting guidelines to ensure that allegations, conviction, or prior claims related to domestic violence will be handled in compliance with s. 631.95, Wis. Stat.

The examiners found the company will not issue an automobile insurance policy to drivers 18-20 years old without a parent's supporting policy. The company does not require a parental supporting policy for all policyholders. Section Ins. 6.54 (3) (a) 4, Wis. Adm. Code, states, in part, that no insurance company shall refuse, cancel, or deny insurance coverage to a class of risks solely on the basis of the applicant's or insured's age.

13. **Recommendation:** It is recommended that the company revise its automobile underwriting guidelines which require a parental supporting policy for an 18-20 year old applicant in order to comply with s. Ins 6.54 (3) (a) 4, Wis. Adm. Code.

For all homeowners, farmowners, and personal passenger automobile policies reviewed during the exam period, the examiners could not find a published rule for the Valued Policyholder discount that defines on whom the company obtains credit reports, and then subsequently uses the highest insurance score on which to base premiums when there are multiple insureds. The rule was not found in the 09/01/06-07 or the 09/01/07-08 rule and rating manuals. When the examiners asked the company about credit score use rules, the company stated that the standard procedure and the rule had recently been filed with OCI for homeowners, but not for private passenger automobile. Section 625.13 (1), Wis. Stat., states, in part, that every authorized insurer shall file with the Commissioner all rates and supplementary rate information and all changes and amendments thereof made by it for use in this state within 30 days after they become effective.

14. **Recommendation:** It is recommended that the company submit complete rule filings for its Valued Policyholder discount which specifies on whom the company orders credits reports and on which it bases the premium when credit reports are ordered on multiple persons, in order to comply with s. 625.13 (1), Wis. Stat.

The previous exam noted automobile policies that were rated incorrectly by using major violations that were older than the underwriting guidelines indicated would be used for rating purposes. This resulted in the insured being placed in a higher risk category and being charged higher premiums than should have been charged. The examiners found that the company failed to issue homeowners policies with the Valued Policy discount (VPD) to all qualifying policyholders in accordance with the company's filed rates and rules. The company advised that it experienced a problem with its computerized rating system during approximately 30 days of the examination period in which it attempted to manually identify qualifying policies to add the VPD at issuance. The examiners found one homeowners policy issued without the VPD which resulted in an overcharge of \$49.

In addition, the examiners found the company issued homeowners policies with incorrect Farm Liability coverage rates and homeowners Form 5 policies with an incorrect rating algorithm due to a computer system problem which resulted in different rates and lower premiums than the company's filed rates. Section 628.34 (3) (a), Wis. Stat., states that no insurer, may unfairly discriminate among policyholders by charging different premiums or by offering different terms of coverage except on the basis of classifications related to the nature and the degree of the risk covered or the expenses involved.

15. Recommendation: It is recommended that the company improve its current quality testing procedures and document comprehensive quality assurance testing of its system platforms prior to moving new or changed programming into production in order to avoid unfair discrimination as set forth in s. 628.34 (3) (a), Wis. Stat.

The examiners found one automobile policy where the filed rating algorithm was not used to rate the Med Pay premium. The examiners also found three policies where the manual rating sheet showed that the filed rating algorithm was not used to rate the Comprehensive coverage. Another three policies were found where the filed

Collision coverage rate was not used. Based on the filed rating algorithm, the math should have been done out to three decimals, and the Med Pay and Comprehensive coverage rates should not have been rounded up. The Collision rates should have been rounded up, but were not. For all policies reviewed, it appears the insureds were overcharged by one dollar (\$1). The company indicated that premiums are generated using computer rating software, which is programmed with the filed algorithm. However, the Medical Payments, Comprehensive, and Collision coverages' base rates are published in the agent manual as a whole numbers. The company responded that if an agent uses the rating/quoting computer programs, which are programmed to use the published rate algorithms, there wouldn't be any overcharges. However, from the manual rating done by the examiners, it appears that there are agents who are not using the software and are computing base rates to the whole number. This results in insureds with similar characteristics being charged different premiums. There are no procedures in place to correct improperly quoted premiums. Section 628.34 (3) (a), Wis. Stat., states that no insurer, may unfairly discriminate among policyholders by charging different premiums or by offering different terms of coverage except on the basis of classifications related to the nature and the degree of the risk covered or the expenses involved.

16. **Recommendation:** , It is recommended that the company revise its agent manual to reflect the Med Pay, Comprehensive, and Collision base rate algorithms to include four decimal places as filed with OCI to comply with s. 628.34 (3) (a), Wis. Stat.

Upon reviewing the signed applications for the sampled policies, the codes used to identify the additional drivers' relationship(s) to the applicant are inconsistent and incorrect. A spouse could be coded as a child and a child coded as a spouse. Since the applications list incorrectly coded relationships to the applicant, the possibility exists that insureds could be assigned incorrect classification codes and subsequently assigned incorrect primary factors. Although the examiners' review did not

find any files where the coding impacted rating, the company has changed its coding using "I" for insured and "SP" for spouse for easier readability when viewing the applications online.

The examiners found that the homeowners rule/rate manual indicates premium for the following coverages are fully earned: Collision or Upset Coverage (ML-26), Consent to Move Mobile Home (ML-25), Earthquake Coverage (ML-54), Lead Liability Limited Coverage (ML223WM), Water Damage - Sewers, Drains & Pumps (ML208WM), Dwelling Under Construction - Collapse (ML-C WM), Dwelling Under Construction - Construction - Theft (ML-T WM), Weight of Ice, Snow or Sleet (FO-323), Scheduled Livestock Horses, Deer, Etc (Class SP-40), Scheduled Livestock Birds (Class SP-4B), Scheduled Livestock Registered Cattle (Class SP-4C), Scheduled Livestock (FO361 WM), Farm Income Option 1 (Class FO400), and Farm Earnings/Farm Extra Expense (SP-3A). Nine policies contained Water Damage coverage and one policy contained Dwelling Under Construction - Collapse coverage and Dwelling Under Construction - Construction coverage. However, the company did not notify the policyholder that less than the pro-rata unearned premium would be returned in the event the policyholder terminated the coverage or policy. Section Ins. 6.10 (4) (b), Wis. Adm. Code, states that in any policy under which an insurer may return a premium that is less than the pro rata unearned premium, the insurer shall provide the policyholder with a separate written notice that the policyholder may pay a substantial penalty if the policyholder cancels the policy prior to its expiration date. No insurer may return a premium that is less than the pro-rata unearned premium until at least 10 days after the insurer mails or delivers this written notice to the policyholder.

17. **Recommendation:** It is recommended that, whenever the company issues a policy with a coverage containing a minimum premium or fully earned premium, the company provide a written notice to the policyholder which complies with s. Ins. 6.10 (4) (b), Wis. Admin. Code.

The examiners found that the company's filed homeowners rule/rate manual stated that a 10% discount applies for the Auto/Home Discount for tenant policies, and that a .86 rate factor was also applicable. The policies reviewed showed that a .86 factor was used. Displaying conflicting rates in the manual is misleading. Section 628.34 (1) (a), Wis. Stat. states, in part, that conduct forbidden includes making or causing to be made any communication relating to an insurance contract which contains false or misleading information, including information misleading because of incompleteness.

18. Recommendation: It is recommended that the company revise its homeowners rate and rule filing to reflect no conflicting rates for its Auto/Home Discount for tenant policies, in order to comply with s. 628.34 (1) (a), Wis. Stat.

The examiners found that the company's filed homeowners rate/rule manual effective 11/1/07 - 11/1/08 contained rates for Recreational Vehicle Property Coverage (ML75AWM) which did not match the rates for this same coverage in the filed Inland Marine rate/rule manual effective 1/1/08 - 1/1/09. From 1/1/08 - 11/1/09, Homeowner policies containing the Recreational Vehicle coverage were issued using the rates contained in the Inland Marine rate and rule filing. Filing conflicting rates is misleading. Section. 628.34 (1) (a), Wis. Stat. which, in part, that conduct forbidden includes making or causing to be made any communication relating to an insurance contract which contains false or misleading information, including information misleading because of incompleteness.

19. Recommendation: It is recommended that the company revise its homeowners rate and rule filing to reflect (or remove) no conflicting Recreational Vehicle Property Coverage rates, in order to comply with s. 628.34 (1) (a), Wis. Stat.

The examiner found the following statement under the 'Modular Home Vs Manufactured Home' section of the company's rule/rate manual page HO 31.0 (11-06):

'Doublewide manufactured homes on a basement or a complete concrete block foundation may be eligible for the Standard Homeowners program; however,

subject to the 1 1/2 X Standard Homeowner rates or they may be written in the Mobile Homeowners program.'

The company advised that the company, not the policyholder, selects the program placement of the risk. There is a slight rating advantage if the risk is placed in the mobile homeowners program and a slight coverage advantage if the risk is placed in the standard homeowners program. The use of the word "may" in the underwriting rule presents an ambiguity in the application of the rule that can lead to unfair discrimination when determining which program to offer risks with similar characteristics. Section 628.34 (3) (a), Wis. Stat. states that no insurer may unfairly discriminate among policyholders by charging different premiums or by offering different terms of coverage except on the basis of classifications related to the nature and the degree of the risk covered or the expenses involved.

20. **Recommendation:** It is recommended that the company revise its homeowners and mobile home underwriting rules to clearly specify the program eligibility for doublewide manufactured homes in order to avoid unfair discrimination when determining which program to offer risks with similar characteristics in order to comply with s. 628.34 (3) (a), Wis. Stat.

The examiner found the company's automobile cancellation and nonrenewal notices advised its policyholders that they could apply for insurance through the Wisconsin Automobile Insurance Plan at the following address; '2200 North Mayfair Road P. O. BOX 264669 Wauwatosa Wisconsin 53226'. The Wisconsin Automobile Insurance Plan is located at 20700 Swenson Drive, Waukesha Wisconsin 53186. Section 631.36 (7) (a) 2, Wis. Stat., states that a notice of cancellation or nonrenewal required under sub. (2) (b) or (4) is not effective unless the notice contains adequate instructions to the policyholder for applying for insurance through a risk-sharing plan under ch. 619, if a risk-sharing plan exists under ch. 619 for the kind of coverage being canceled or nonrenewed.

21. **Recommendation:** It is recommended the company revise its nonrenewal and cancellation notice language to reflect the correct address for the Wisconsin Automobile Insurance Plan located at 20700

Swenson Drive, Waukesha Wisconsin 53186, in order to compliance with s. 631.36, (7) (a) 2, Wis. Stat.

Privacy

The examiners found that the company does not require its appointed agents to sign a privacy and confidentiality statement outlining its agents' obligation to abide by federal and state privacy laws, as well as the company's privacy policy, to protect the medical and personally identifiable information of customers, consumers and claimants of the company. Every insurer is bound by the acts of its appointed agents pursuant to s. 628.40, Wis. Stat.; therefore, the company lacks any level of protection from its appointed agents who violate federal and state privacy laws. Section Ins. 25.02, Wis. Admin. Code defines the treatment of nonpublic personal health information and nonpublic personal financial information about individuals by all licensees of the office of the commission of insurance except to the extent that a licensee is excepted from a provision of the chapter.

22. Recommendation: It is recommended that the company require its appointed agents to sign a privacy and confidentiality statement, either as part of the Company-Agency Agreement or as a separate agreement, in order to protect itself from its appointed agents who violate federal and state privacy laws, pursuant to s. Ins. 25.02, Wis. Admin. Code.

V. CONCLUSION

A total of 22 recommendations were made as a result of this targeted market conduct examination.

Of the 22 recommendations, 6 relate to claims; 3 relate to producer licensing; 12 relate to underwriting and rating, and 1 relates to privacy.

The company should develop and implement more precise claims procedures for payments and proper payment documentation. In addition, the company should develop more systematic procedures for evaluating its insureds' losses, ensuring that the insureds are made whole prior to retaining funds, and communicating the claimant's rights under Rimes.

Regarding agent licensing, appointments, and terminations, the company should develop, document, and implement new procedures for compliance with s. Ins. 6.57, Wis. Adm. Code for agent appointments and terminations. The company should review and rewrite the agent termination letters to ensure all agents receive proper termination notices that the agent is no longer appointed and cannot act as the company's representative. The company should also develop, document and implement new procedures to inform OCI of agent appointments and terminations in a timely manner.

The majority of recommendations relate to underwriting and rating. The examiners performed manual rating for written premiums for the Personal Auto and Homeowners/Farmowners lines of business. The company should file all the underwriting rules that are in use for determining premiums. Once the rules are filed, the company then should ensure all agents are using the computer software, and the software should be updated to reflect the current rating rules.

In addition, the company should continue to simplify its rating instructions, schedules and rules and provide ongoing training for its agents in order to ensure correct

quotes are being provided to applicants. This, in turn, would reduce improper rating factors being assigned.

Finally, the company should have their appointed agents sign a privacy and confidentiality statement outlining the agents' obligation to abide by federal and state privacy laws and the company's privacy policy. This would protect consumer privacy and protect the company from appointed agents who violate the federal and state privacy laws.

VI. SUMMARY OF RECOMMENDATIONS

Claims

- Page 10 1. It is recommended that the company develop and implement written claim procedures detailing the process to be followed when settling claims involving depreciation/betterment; sales tax for total losses and repairs; deductibles with respect to policy limit, claimant loss amount and internal limits; and reimbursement of insureds from subrogation recoveries in order to ensure fair and consistent claim handling and compliance with s. Ins 6.11 (3) (b) 2., Wis. Adm. Code.
- Page 11 2. It is recommended that the company develop and implement a written procedure to ensure interest is paid on all overdue claims, in order to comply with s. 628.46, Wis. Stat.
- Page 11 3. It is recommended the company document all communications with claimants in order to document compliance with s. Ins. 6.11 (3) (a) 1, Wis. Admin. Code
- Page 12 4. It is recommended that the company promptly send a denial letter after the claim is verbally denied in order to document
- Page 13 5. It is recommended that the company reimburse its insureds for funds it receives in its subrogation efforts before retaining funds for its own account, in order to comply with the Wisconsin Supreme Court decision, Rimes v. State Farm Mutual Automobile Insurance Company, 106 Wis. 2d 263., and if not paid promptly, include interest as required by s. 628.46, Wis. Stat.
- Page 13 6. It is recommended the company review its procedures and address any procedural or personnel deficiencies to comply with s. Ins. s 6.11 (3) 13 (b) 2, to properly document claim settlements.

Producer Licensing

- Page 15 7. It is recommended the company send proper termination letters to all its terminated agents advising the agent they are no longer appointed and can no longer act as the company's representative in order to comply with s. Ins. 6.57(2), Wis. Admin. Code.
- Page 15 8. It is recommended the company send proper termination notice to the Office of the Commissioner of Insurance prior to or within 30 calendar days of the termination date in order to comply with s. Ins 6.57 (2), Wis. Adm. Code.
- Page 16 9. It is recommended that the company update and correct its producer database to include all of its appointed producers and his or her license numbers to comply with s. Ins. 6.57 (5), Wis. Admin. Code.

Underwriting and Rating

- Page 16 10. It is recommended that whenever a policy is issued differently than applied for, the company provide separate notification to the insured of the specific difference in coverage in order to comply with s. 628.34 (1), Wis. Stat.
- Page 17 11. It is recommended that the company continue to simplify its rating instructions, schedules, and rules and provide ongoing training for its agents in order to ensure correct quotes are being provided to applicants to comply with s. 628.34 (1) (a), Wis. Stat.
- Page 18 12. It is recommended that the company add underwriting guidelines to ensure that allegations, conviction, or prior claims related to domestic violence will be handled in compliance with s. 631.95, Wis. Stat.
- Page 18 13. It is recommended that the company revise its automobile underwriting guidelines which require a parental supporting policy for an 18-20 year old applicant in order to comply with the requirements of s. Ins 6.54 (3) (a)4, Wis. Adm. Code.
- Page 18 14. It is recommended that the company submit complete rule filings for its Valued Policyholder Discount which specifies on whom the company orders credits reports and on which it bases the premium when credit reports are ordered on multiple persons, in order to comply with s. 625.13 (1), Wis. Stat.
- Page 19 15. It is recommended that the company improve its current quality testing procedures and document comprehensive quality assurance testing of its system platforms prior to moving new or changed programming into production in order to avoid unfair discrimination as set forth in s. 628.34 (3) (a), Wis. Stat.
- Page 20 16. It is recommended that the company revise its agent manual to reflect the Med Pay, Comprehensive, and Collision base rate algorithms to include four decimal places as filed with OCI to comply with s. 628.34 (3) (a), Wis. Stat.
- Page 21 17. It is recommended that, whenever the company issues a policy with a coverage containing a minimum premium or fully earned premium, the company provide a written notice to the policyholder which complies with s. Ins. 6.10, (4) (b) Wis. Admin. Code.
- Page 22 18. It is recommended that the company revise its homeowners rate and rule filing to reflect no conflicting rates for its Auto/Home Discount for these policies, in order to comply with s. 628.34 (1) (a), Wis. Stat.
- Page 22 19. It is recommended that the company revise its homeowners rate and rule filing to reflect (or remove) no conflicting Recreational Vehicle Property Coverage rates, in order to comply with s. 628.34 (1) (a), Wis. Stat.

Page 23 20. It is recommended that the company revise its homeowners and mobile home underwriting rules to clearly specify the program eligibility for doublewide manufactured homes in order to avoid unfair discrimination when determining which program to offer risks with similar characteristics in order to comply with s. 628.34 (3) (a), Wis. Stat.

Page 23 21. It is recommended the company revise its nonrenewal and cancellation notice language to reflect the correct address for Wisconsin Automobile Insurance Plan located at 20700 Swenson Drive, Waukesha Wisconsin 53186, in order to ensure compliance with s. 631.36, (7) (a) 2, Wis. Stat.

Privacy

Page 24 22. It is recommended that the company require its appointed agents to sign a privacy and confidentiality statement, either as part of the Company-Agency Agreement or as a separate agreement, in order to protect itself from its appointed agents who violate federal and state privacy laws, pursuant to s. Ins. 25.02, Wis. Admin. Code..

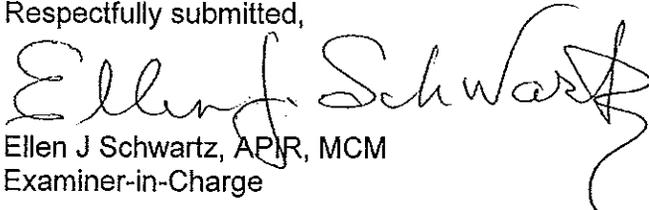
VII. ACKNOWLEDGEMENT

The courtesy and cooperation extended to the examiners during the course of the examination by the officers and employees of the company is acknowledged.

In addition, to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination.

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Respectfully submitted,


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